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ANALYSIS OF THE IMPACT OF INCREASES TO CHILD BENEFIT AND CHILD TAX CREDITS ON CHILD POVERTY RATES IN THE UK AND SCOTLAND

Objective

The Scotland Bill 2015-16 gives the Scottish Government new powers to top-up social security payments. The [Child Poverty Action Group in Scotland](#) asked us to estimate what impact increasing child benefits and child tax credits might have on child poverty rates in Scotland. We have also made estimate for the whole of the UK.

Method

To make these estimates we used the latest 2013/14 Households Below Average Income data based on the Family Resources Survey (FRS). In the case of the child benefit simulations we increased the income of the household by the child benefit increase multiplied by the number of dependent children in the household. This assumes that child benefit is being claimed for all children and ignores the fact that child benefit is taken back from households with an earner earning £50,000 plus per year. This would have no impact on the child poverty simulations. In the case of child tax credits we increased the income by the child tax credit increase multiplied by the number of children in the household, but only for those households reporting that they are receiving child tax credit. It takes no account of how this increase might impact on other benefits. It is also to be noted that the FRS has a tendency to [under report means-tested benefit receipt](#) compared to the administrative data, in particular respondents can get confused if they are receiving child tax credit and child benefit. It is likely that the simulations are more reliable for the child benefit increases than they are for the child tax credit increases.

An increase in child benefits and child tax credit would increase median incomes and therefore the contemporary 60% of median poverty threshold. It is a moot point whether we should take account of this. So in the tables below we have simulated the impact on poverty rates using a fixed threshold and a floating threshold.

Results

In 2013/14 the child poverty rate before housing costs (BHC) in the UK was 17.4 % and after housing costs (AHC) was 27.6% (which is the same as the published HBAI numbers). The sample contains 11,002 dependent children. Child poverty rates in Scotland were 14.4% BHC and 22.1% AHC based on a sample of 1,340 children. Table 1a provides an illustration of the child benefit top up at various amounts and their impact on child poverty reduction after the median incomes are adjusted. So for example an increase of £2 per child per week would reduce child poverty in Scotland by 6.2% BHC and 6.4% AHC.

Table 1a: Illustration of the impact of additional child benefit has on the child poverty rate based on the HBAI 2013/14 household level data (weighted by number of children in the household). Median incomes adjusted.

Extra CB £ per child per week	No of children living < 60% median income in the UK	Child poverty % in the UK	Child poverty reduction % in the UK	No of children living < 60% median income in Scotland	Child poverty % in Scotland	Child poverty reduction % in Scotland
BHC						
0	1911	17.4	-	193	14.4	-
1	1882	17.1	1.5	189	14.1	2.1
2	1787	16.2	6.5	181	13.5	6.2
5	1639	14.9	14.2	171	12.8	11.4
10	1455	13.2	23.9	154	11.5	20.2
AHC						
0	3033	27.6	-	296	22.1	-
1	2965	26.9	2.2	277	20.7	6.4
2	2925	26.6	3.6	277	20.7	6.4
5	2714	24.7	10.5	252	18.8	14.9
10	2382	21.7	21.5	221	16.5	25.3

For comparison, Table 1b provides the illustration without adjusting the median incomes. A £2 per child per week increase in child benefits would reduce child poverty in Scotland by 7.3% BHC and 9.8% AHC.

Table 1b: Illustration of the impact of additional Child Benefit has on the child poverty rate based on the HBAI 2013/14 household level data (weighted by number of children in the household). Median incomes not adjusted.

Extra CB £ per child per week	No of children living < 60% median income in the UK	Child poverty reduction % in the UK	No of children living < 60% median income in Scotland	Child poverty reduction % in Scotland
BHC				
0	1911	-	193	-
1	1850	3.2	188	2.6
2	1753	8.3	179	7.3
5	1581	17.3	168	13.0
10	1353	29.2	142	26.4
AHC				
0	3033	-	296	-
1	2944	2.9	276	6.8
2	2850	6.0	267	9.8
5	2622	13.6	249	15.9
10	2259	25.5	209	29.4

Table 2 provides an illustration of the child tax credit top up at various amounts and their impact on child poverty reduction. As CTC is not universal we did not adjust the median incomes for the following illustrations as we did for the child benefit top ups. In this simulation we included an increase of £20 per child per week. An increase in child tax credit of £2 per child per week would reduce child poverty by 7.3% BHC and 8.4% AHC.

Table 2: Illustration of the impact of additional Child Tax Credit (CTC) has on the child poverty rate based on the HBAI 2013/14 household level data (weighted by number of children in the household).

Extra CTC £ per child per week	No of children living < 60% median income in the UK	Child poverty reduction % in the UK	No of children living < 60% median income in Scotland	Child poverty reduction % in Scotland
BHC				
0	1911	-	193	-
1	1862	2.6	188	2.6
2	1778	7.0	179	7.3
5	1660	13.1	169	12.4
10	1462	23.5	149	22.8
20	1175	38.5	125	35.2
AHC				
0	3033	-	296	-
1	2951	2.7	278	6.1
2	2864	5.6	271	8.4
5	2674	11.8	254	14.2
10	2350	22.5	221	25.3
20	1928	36.4	183	38.2

In the following tables the analysis is repeated using population weights.

The estimated overall child poverty rate (BHC) in 2013/14 was 17% (27.8% for AHC). This figure is based on an estimated population of 13,329,444 dependent children in the UK derived from the HBAI household level data after weighting applied. Child poverty rate (BHC) in Scotland was 14.1% (21.8% for AHC) based on an estimated population of 985,551 dependent children living in Scotland. Table 3a illustrates the impact of child benefit top up at various amounts on child poverty reduction after the median incomes are adjusted. So for example an increase of £2 per child per week would reduce child poverty in Scotland by 5.3% BHC and 5.2% AHC.

Table 3a: Illustration of the impact of additional Child Benefit has on the child poverty rate based on the HBAI 2013/14 data (weighted by 'gs_newbu' multiplied by 'depchldh'). Median incomes adjusted.

Extra CB £ per child per week	No of children living < 60% median income in the UK	Child poverty % in the UK	Child poverty reduction % in the UK	No of children living < 60% median income in Scotland	Child poverty % in Scotland	Child poverty reduction % in Scotland
BHC						
0	2269817	17.0	-	139065	14.1	-
1	2233782	16.8	1.6	136801	13.9	1.6
2	2123890	15.9	6.4	131716	13.4	5.3
5	1961619	14.7	13.6	125252	12.7	9.9
10	1757231	13.2	22.6	114302	11.6	17.8
AHC						
0	3700905	27.8	-	214441	21.8	-
1	3629807	27.2	1.9	203249	20.6	5.2
2	3579955	26.9	3.3	203249	20.6	5.2
5	3343424	25.1	9.7	186866	19.0	12.9
10	2978294	22.3	19.5	165633	16.8	22.8

For comparison, Table 3b provides the illustration without adjusting the median incomes. So for example an increase of £2 per child per week would reduce child poverty in Scotland by 6.3% BHC and 8.6% AHC.

Table 3b: Illustration of the impact of additional Child Benefit has on the child poverty rate based on the HBAI 2013/14 data (weighted by ‘gs_newbu’ multiplied by ‘depchldh’). Median incomes not adjusted.

Extra CB £ per child per week	No of children living < 60% median income in the UK	Child poverty reduction % in the UK	No of children living < 60% median income in Scotland	Child poverty reduction % in Scotland
BHC				
0	2269817	-	139065	-
1	2190120	3.5	135891	2.3
2	2078304	8.4	130314	6.3
5	1895685	16.5	123294	11.3
10	1648121	27.4	106523	23.4
AHC				
0	3700905	-	214441	-
1	3602511	2.7	202294	5.7
2	3486519	5.8	196064	8.6
5	3239853	12.5	184371	14.0
10	2828371	23.6	154988	27.7

Again, the analysis of the impact of CTC top ups on child poverty reduction is based on household samples that received some CTC and the median incomes were not adjusted for the following illustration. An increase in child tax credit of £2 per child per week would reduce child poverty by 6.3% BHC and 7.3% AHC.

Table 4: Illustration of the impact of additional Child Tax Credit (CTC) has on the child poverty rate based on the HBAI 2013/14 data (weighted by ‘gs_newbu’ multiplied by ‘depchldh’).

Extra CTC £ per child per week	No of children living < 60% median income in the UK	Child poverty reduction % in the UK	No of children living < 60% median income in Scotland	Child poverty reduction % in Scotland
BHC				
0	2269817	-	139065	-
1	2204820	2.9	135891	2.3
2	2107602	7.1	130314	6.3
5	1987136	12.5	123994	10.8
10	1774979	21.8	111472	19.8
20	1439199	36.6	96131	30.9
AHC				
0	3700905	-	214441	-
1	3611418	2.4	203656	5.0
2	3502632	5.4	198728	7.3
5	3293350	11.0	188316	12.2
10	2929771	20.8	165664	22.7
20	2447330	33.9	139514	34.9

Conclusion

If the Scottish Government decided to increase child benefits unilaterally it would not have much impact on the UK poverty threshold. So it is not unreasonable to focus on the fixed poverty threshold. If the Scottish Government were to increase child benefit by £5 per child per week 30,000 children would be lifted out of poverty AHC and if the increase was £10 per child per week the poverty 59,000 children would be lifted out of poverty. The costs of these increases would be £256 million per year and £512 million per year.

Further work would need to be undertaken on the administrative methods available for paying higher rates of child benefit in Scotland. Child benefit is administered centrally in the UK from an office in Sunderland. The Scottish Government could take over the administration, but it is probable that it would be more efficient for the Child Benefit Office to carry on and just vary payments to families with children with Scottish post codes.